

**Meeting Between Federal Reserve Board Staff
and Network Branded Prepaid Card Association
July 30, 2010**

Participants: Louise Roseman, Jeffrey Yeganeh, Geoff Gerdes, Jennifer Davidson, David Stein, Ky Tran-Trong, Elizabeth Kiser, Stephanie Martin and Dena Milligan (Federal Reserve Board)

Terry Maher (NBPCA, Baird Holm), Donald Mosher (NBPCA, Schulte Roth & Zabel), Jonathan Palmer (NBCPA, FSV Payment Systems), DJ Park (NBPCA, Pillsbury Law), Judie Rinearson (NBCPA, Bryan Cave), Michelle Sullender (NBPCA, Simon Malls Gift Cards), Kirsten Trusko (NBPCA) and Scott Qualls (BB&T)

Summary: Staff of the Federal Reserve Board met with representatives of the Network Branded Prepaid Card Association (NBPCA) to discuss the interchange fee provisions applicable to prepaid cards under the Dodd-Frank Wall Street Reform and Consumer Protection Act (“the Act”). NBPCA is a trade association that focuses exclusively on network-branded (also known as “open loop”) prepaid cards. Among the issues discussed by NBPCA’s representatives at the meeting were: the general attributes of prepaid cards; the types of network-branded prepaid cards; the account structures of prepaid cards; the differences between the prepaid and debit-card transaction processes; and the types of fraud unique to prepaid cards. A copy of the handout provided by NBPCA at the meeting is attached below.



Durbin Committee

July 30, 2010

Agenda Outline

- Introductions
- Ask Federal Reserve colleagues to share:
 - What is your timing to gather the information you are seeking?
 - In what format would the information be most helpful?
 - From whom are you seeking this information, and how can we help?
 - When will you presenting your findings and to whom?
 - What additional information are you seeking and how can we help?
- Dialogue
 - Discussion deck
 - What is the potential impact of Durbin as written
 - How does it impact the consumer?
 - How does it impact other stakeholders: retailers of cards, merchants who accept them, the health industry using the cards
 - How does it impact businesses: financial institutions and partners in getting the product to the consumer, and servicing the customers

Presentation Topics

- Prepaid overview
 - Ways to view prepaid across the 33 card types
 - Who uses which types of cards
- What is perceived to be exempt and non-exempt cards in the current Durbin language
 - Consumer impact of rules and of exempt vs non-exempt
- Transaction Flows
- Thorny issues
- Next steps to get you the information you need



Fed Questions Posed to Date

- What is the landscape of the Prepaid industry?
 - What is the nature of the Prepaid industry?
 - How are Prepaid transactions processed?
 - Who are the key players?
-
- What are the thorny issues specific to Prepaid?
 - If issuer and network are the same party, what is counted as 'network fee' and what is 'interchange'?
 - What are the differences in Prepaid vs a debit card?
 - How are cost considerations different from debit cards?



Network Branded Prepaid Card Association

About NBPCA

- Nonprofit, inter-industry trade association
- Network branded (open-loop) prepaid cards are our exclusive focus
- First membership year: July 1, 2006–June 30, 2007

NBPCA Mission

the market cards

- Provide a fact-based voice to media, government and consumers
- Set the industry bar by developing recommended best practices
- Develop and share consumer education to help consumers optimize their experience with Network Branded Prepaid Cards

NBPCA Role

- Highly interactive and participatory forum for thought leadership and collaboration to drive industry consensus and success
- Collective voice of industry and a trusted, credible point of factual information to industry, government, media and consumer groups



Network Branded Prepaid Card Association

NBPCA: What We Do

- Educate: Consumers, government, media on the types of uses and unique applications for network branded prepaid
- Advocate: Actively seek meetings and opportunities for interaction with people and entities of influence
- Protect: Preserve ability to offer a competitive product set
- Promote: Assertively highlight the unique benefits provided by network branded prepaid products to consumers, government and businesses

NBPCA: Core Principles in Serving Consumers

- ***Choice. Access. Transparency. Education***



What is Prepaid?



Prepaid Card Account Attributes

- Can be funded by the person using the card, another person, a company or institution
- Similar payment functionality to credit and debit card except that only money previously loaded to the card account may be spent
- Unlike Debit or Credit, not directly attached to an individual account or line of credit (rather funds sit in a pooled account)
- Can be purchased or loaded through non-traditional distribution channels
- Ways to view Prepaid categories
 - Open loop (good anywhere card brand accepted) and Closed loop (good only within a defined subset of merchants that are within the processing loop)
 - Reloadable and Non- Reloadable
 - Who can load the card: Government, Consumer, Corporate
 - Attributes: Very unique products and POS services to deliver specific benefits to various stakeholders (eg Health/benefits, others)




Card Branding and Features

- Cards branded with a leading “acceptance mark” (American Express, Discover, MasterCard, Visa and PIN Networks such as NYCE, Star, Pulse, Interlink, etc)
- Value is maintained on a host computer system
- Uses existing payment network infrastructure for ATM and POS – anywhere network brand is accepted*



* Some cards are selective authorization only, healthcare cards, promotional cards, etc.

Three Types of Prepaid Cards

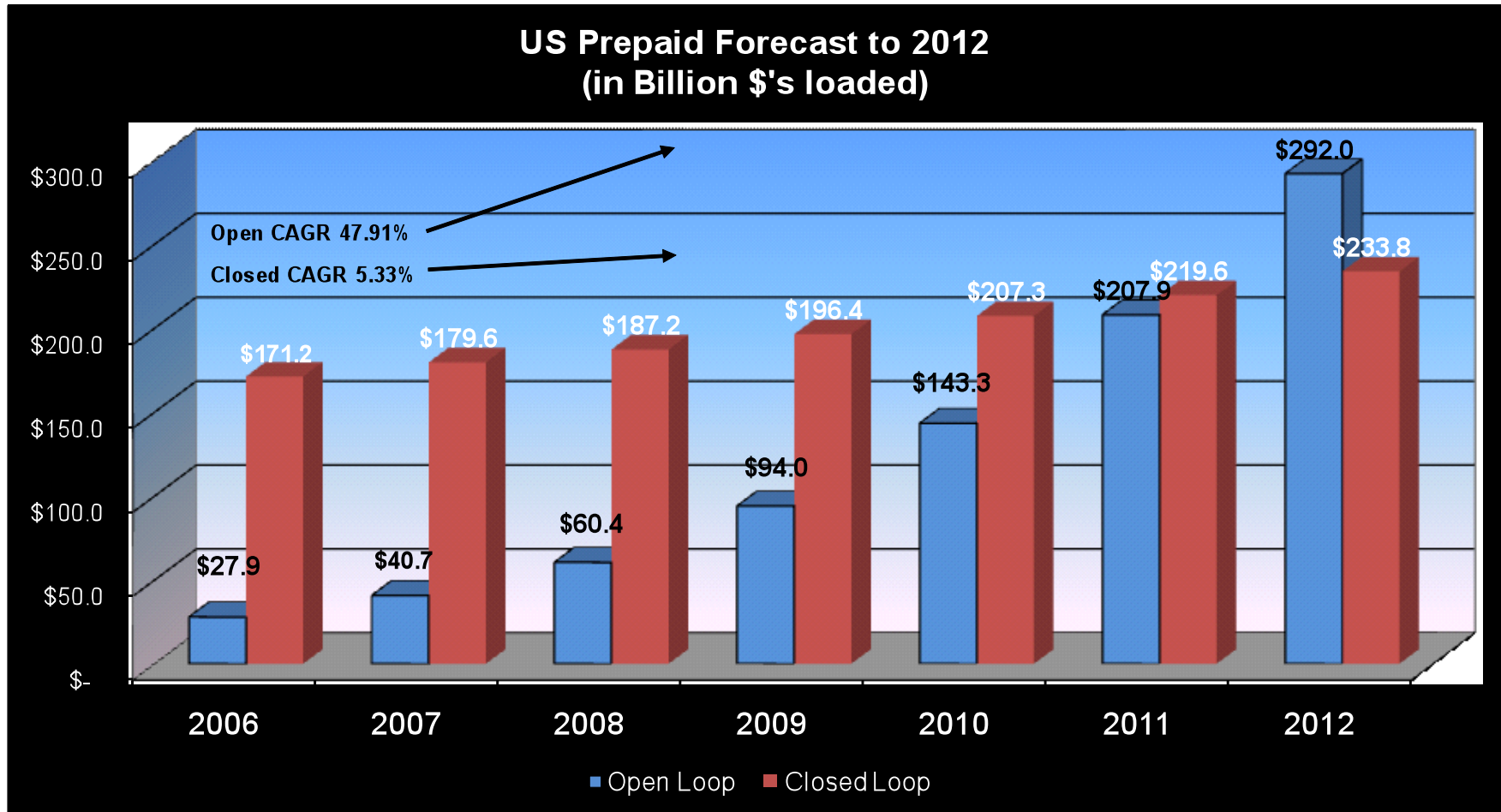
Category	Example	Sponsor	POS	Network	Settlement
Closed, Single Merchant		Single Merchant	Proprietary Hardware and/or Software	Host-to- Host, Private Connections	Track Debits & Credits Only, No Settlement
Closed, Multiple Merchant		Government or Corporate Entity	Proprietary Hardware and/or Software	Host-to- Host, Private Connections	Private Settlement with Merchants
Open Network – Visa, MC Amex Discover		Diverse Sponsors & Benefactors	Existing POS Equipment	Existing Visa, AXP MasterCard & Discover Networks	Existing Visa, AXP, MasterCard & Discover Settlement



Prepaid Landscape



U.S. Prepaid Market Size and Growth (In Billions of \$)



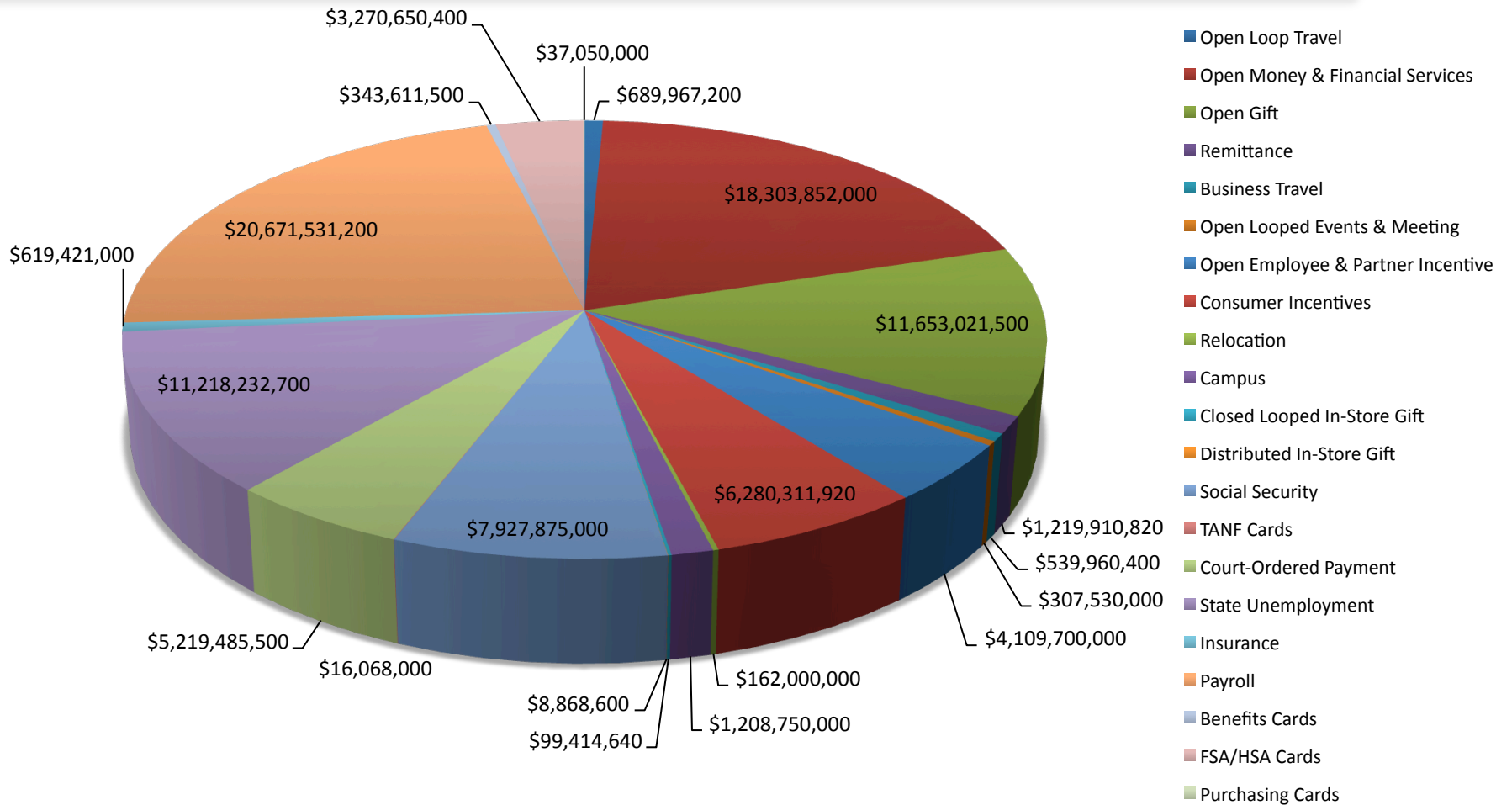
NOTE: CAGR Based on 2006 to 2012

Copyright Mercator Advisory Group 2009

Source: Mercator Advisor Group

Prepaid: \$ Load by Card Type

Mercator: 12 categories and 33 types of prepaid. Below are their “open loop”



Source data: Mercator 2009



Closed vs Open Loop

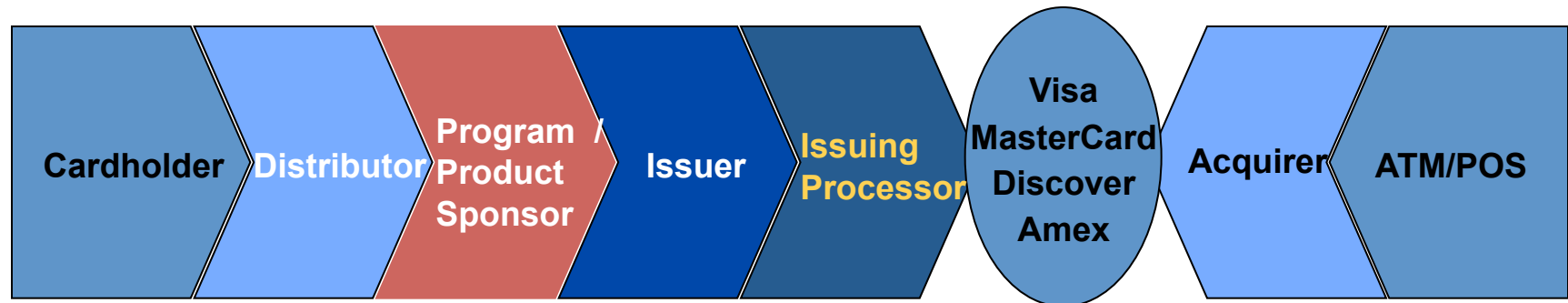
Red= maybe be non-reloadable or reloadable

Applications by card type	Closed Loop	Open Loop
Payroll*		✓
Gift*	✓	✓
General Purpose Reloadable*		✓
Government: Social Security, Unemployment, etc*		✓
FSA/HRA/HSA/Benefits*		✓
Employee & Partner Incentive	✓	✓
Consumer Incentive	✓	✓
Court Ordered Payments*		✓
Government: Food Stamps*	✓	
Travel		✓
Relocation		✓
Campus/student*	✓	✓
Catastrophe and Insurance claims*		✓
Temporary Assistance for Needy Families (TANF)*	✓	✓

How Does Prepaid Compare to Other Card Types



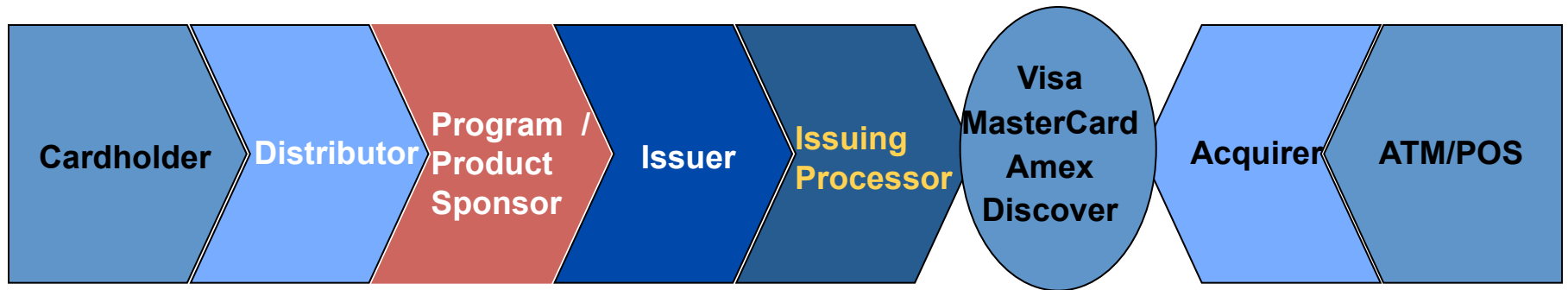
Prepaid has a Much Different Value Chain than Credit and Debit



- Unlike Credit and Debit Cards, the value proposition in Prepaid arises in multiple “vertical markets”, with
 - Different participants in the value chain
 - Different value proposition for participants by market & product
 - Different economic models for FIs (issuers) and distributors
 - Different risks from diverse funding sources and distributors



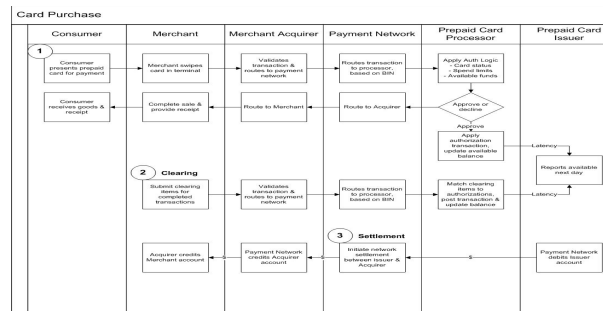
Roles of Participants in Prepaid Programs



- Cardholder – Loads and/or receives the funds
- Distribution – retailer or bank / FI or program manager online
- Program/Product Sponsor – bank issuer or bank issuing partner that manages the programs
- Issuer – bank issuer for cards
- Issuing Processor – card processor
- Networks – AMEX, Discover, MasterCard and Visa, PIN Networks
- Acquirer – facilitates merchants' processing with ATM and POS
- ATM/POS – provides cardholder with access to funds at ATM, cash advance in a branch or via POS (retail, web, telephone, etc)

Transaction Flows

Sets of detailed transaction flows were shared with the Fed team reviewing prepaid for Reg E. We can also forward to you if helpful



What are the thorny issues?



NBPCA and Durbin:

Areas of Focus

- Exempt cards:
 - Support clear understanding of language by all parties
 - Support creation of rules that are implementable given unique Prepaid distributions channels, systems and processes in a way least intrusive to consumers and maintaining these cards for all consumers
- Non-Exempt Cards
 - Supply the factual, industry level cost and fraud factors to include in the interchange discussions
 - Support the crafting of rules such that they are implementable in the industry systems and partner/distribution models
- Network routing restrictions on prepaid cards issued with or without PINs today
- Implementation time table – 90 days after final rules issued



Overview of Thorny Issues

- Allowed and disallowed costs
 - Prepaid processing is much different than check processing
 - Additional POS services that prepaid value chain has to support
- Some prepaid card types could have both reloadable and non-reloadable programs
 - Many of the non-reloadable programs are heavily used by the LMI (low and moderate income) consumer
- Fraud adjustment
 - Prepaid has different fraud considerations given different vertical markets, distribution and load sites
- Network fees
 - Prepaid specific considerations
- Network restrictions (PIN Routing)
 - Negative impact especially on single load cards

Summary and Next steps

- What additional information are you seeking?
- In what format?
- What timing?
- How we can help
 - To do's and timing



Questions?